

## Message Text

LIMITED OFFICIAL USE

PAGE 01 LA PAZ 05749 192124Z

17

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 /078 W

----- 121416

R 191945Z AUG 75

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 7727

LIMITED OFFICIAL USE LA PAZ 5749

E.O. 11652: N/A

TAGS: EFIN, BL

SUBJECT: NEW BOLIVIAN BANKING REGULATIONS

SUMMARY: GOB AUGUST 14 ISSUED IMPORTANT NEW BANKING DECREE GUARANTEEING DOLLAR VALUE OF DOMESTIC TIME DEPOSITS, OUTLAWING DOLLAR DENOMINATED TIME DEPOSITS AND CERTIFICATES OF DEPOSIT AND REGULATING BANK CREDIT TO PRIVATE SECTOR. PRIMARY OBJECTIVES ARE TO RETAIN FOREIGN EXCHANGE IN DOMESTIC BANKING SYSTEM, INCREASE DOMESTIC SAVING RATE, ATTRACT SAVINGS DEPOSITS FROM NEIGHBORING COUNTRIES, REDUCE THE COST OF DOMESTIC CREDIT, AND REDUCE CONSUMER GOODS IMPORTS. IN EMBASSY VIEW, DECREE DESIRABLE STEP TOWARDS STRENGTHENING BANKING SYSTEM AND BOLIVIA'S FOREIGN EXCHANGE RESERVE POSITION. MEASURE IMPLIES STRONG GOB COMMITMENT TO PRESENT FIXED EXCHANGE RATE. DEGREE OF SUCCESS WILL DEPEND IN LARGE PART ON STABILITY OF BOLIVIA'S FISCAL AND BALANCE-OF-PAYMENTS SITUATION AND ON PUBLIC CONFIDENCE IN GOB'S WILLINGNESS TO STAND BEHIND MAINTENANCE OF VALUE GUARANTEES IN FUTURE YEARS. END SUMMARY.

1. DECREE'S MAIN PROVISIONS INCLUDE

A. CONTINUATION OF GOB GUARANTEE OF DOLLAR VALUE OF PESO TIME DEPOSITS, BUT WITH MINIMUM ANNUAL INTEREST RATES ON 90, 180 AND LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LA PAZ 05749 192124Z

360 DAY DEPOSITS OF 10.75 PERCENT, 11.25 PERCENT AND 11.75 PER-

CENT RESPECTIVELY, AND IN MULTIPLES OF 5,000 PESOS. RESERVE REQUIREMENT ON TIME DEPOSITS REDUCED FROM 30 PER-CENT TO 10 PER-CENT FOR DOMESTIC BANKS AND 15 PERCENT FOR FOREIGN.

B. AUTHORIZATION FOREIGN CURRENCY DENOMINATED (DOLLAR) 90, 180 AND 360 DAY TIME DEPOSITS IN \$5,000 DENOMINATIONS AT UP TO 9 PERCENT INTEREST AND BANK CERTIFICATES OF DEPOSIT ON SAME TERMS.

C. REMOVAL OF INCOME TAXES ON SAVINGS AND TIME DEPOSITS, AND LINES OF CREDIT AND ELIMINATION OF RESERVE REQUIREMENTS ON LINES OF CREDIT FROM FOREIGN SOURCES.

D. REGISTRATION OF ALL BANK CREDIT WITH CENTRAL BANK.

E. DEBT/CAPITAL RATIO OF 30 TO 1 ON DOMESTIC BANKS AND 20 TO 1 ON FOREIGN BANKS WITH ONE YEAR TO COMPLY WITH THIS REQUIREMENT.

F. 75 PERCENT OF BANK CREDIT MUST GO TO PRODUCTIVE SECTOR AND 25 PER CENT TO COMMERCIAL.

G. 80 PERCENT OF IMPORT FINANCING THROUGH LETTERS OF CREDIT, LINES OF CREDIT, AND DOMESTIC BANK GUARANTEES MUST GO FOR CAPITAL GOODS, INTERMEDIATE GOODS AND NECESSITIES, 20 PERCENT FOR DURABLES AND OTHER ITEMS.

2. TEXT OF DECREE BEING POUCHED.

3. COMMENT. THE NEW MEASURES WERE GENERATED BY A COMBINATION OF PRIVATE BANK INTEREST IN INCREASING DOMESTIC DEPOSITS BECAUSE OF STRONG CREDIT NEEDS FROM THE PRIVATE SECTOR, AND THE GOB'S CONCERN WITH RAISING THE DOMESTIC SAVINGS RATE AND STEMMING AN OUTFLOW OF FOREIGN EXCHANGE RESERVES. UNDER THE PREVIOUS REGULATIONS DOMESTIC SAVERS' NET RETURN ON DOMESTIC ACCOUNTS AFTER TAXES WERE LESS THAN AVAILABLE IN SOME FOREIGN COUNTRIES, WHERE TAXES COULD BE AVOIDED. SECONDLY, THE GOB'S PREVIOUS SYSTEM OF DIRECTING CREDIT, WHICH IMPOSED 7 PERCENT TAX ON COMMERCIAL CREDIT AND 1 PERCENT ON INDUSTRIAL CREDIT DID NOT COVER LINES OF CREDIT FROM FOREIGN SOURCES, WITH RESULT THAT LARGE DOMESTIC IMPORTERS WERE OBTAINING CREDIT FROM FOREIGN BANKS (MOSTLY THOSE WITH BRANCHES IN BOLIVIA, SUCH AS FIRST BOSTON, CITY BANK AND BANK OF AMERICA) AT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LA PAZ 05749 192124Z

LESS THAN DOMESTIC RATES WHILE SMALLER BORROWERS PAID DOMESTIC RATES OR RECEIVED NO CREDIT AT ALL. IN EFFECT BOLIVIAN SAVERS WERE SPENDING FUNDS ABROAD, WHICH WERE RE-CHANNELED BACK TO LARGE BOLIVIAN IMPORTERS, ALL OF THIS OUTSIDE THE DOMESTIC BANKING SYSTEM AND AT AN ECONOMIC COST TO THE COUNTRY. THE NEW DECREE SHOULD STRENGTHEN THE DOMESTIC BANKING SYSTEM AS WELL AS GIVE THE GOB SOMEWHAT ENHANCED CONTROL OVER DOMESTIC CREDIT. THE DECREE ALSO IMPLIES A STRONG GOB COMMITMENT TO A FIXED EXCHANGE RATE AT THE

PRESENT PAR VALUE. WHETHER THE MEASURES WILL INCREASE RETENTION OF BOLIVIAN-OWNED FOREIGN EXCHANGE AND ATTRACT FOREIGN CURRENCY FROM NEIGHBORING COUNTRIES WILL DEPEND ON PUBLIC CONFIDENCE IN THE GOB'S WILLINGNESS TO STAND BEHIND ITS MAINTENANCE OF VALUE GUARANTEES SHOULD FOREIGN EXCHANGE RESERVES DETERIORATE SUBSTANTIALLY, AND TO NOT TAKE ACTIONS CONTRARY TO THE INTEREST OF LARGE DEPOSITORS. BOTH FOREIGN AND LOCAL BANKS HERE ARE OPTIMISTIC THAT MEASURES WILL INCREASINGLY ATTRACT FUNDS INTO THE DOMESTIC BANKING SYSTEM. WE UNDERSTAND THE PRIVATE BANKERS ASSOCIATION AND CARLOS CALVO, SUB-MINISTER OF PLANNING AND COORDINATIONS AND FORMER PRESIDENT OF THE BANCO MERCANTIL WERE INFLUENTIAL IN ADOPTION OF THE DECREE.

4. INTERESTING ASPECT OF DECREE IS THAT IT ADOPTED DURING MINFIN CASTILLO'S VISIT TO PARAGUAY. THERE ARE RUMORS THAT CASTILLO SUPPORTED ALTERNATIVE MEASURES. ADOPTION VERSION PROMOTED BY CALVO AND BANKERS ASSOCIATION MAY REFLECT GENERALLY LOW ESTEEM IN WHICH MIN CASTILLO HELD AMONG FINANCIAL CIRCLES HERE.  
STEDMAN

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** BANKS, BANK LAW  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 19 AUG 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975LAPAZ05749  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750287-0153  
**From:** LA PAZ  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750840/aaaabjbv.tel  
**Line Count:** 134  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION ARA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 03 SEP 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <03 SEP 2003 by ShawDG>; APPROVED <04 DEC 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** NEW BOLIVIAN BANKING REGULATIONS SUMMARY: GOB AUGUST 14 ISSUED IMPORTANT NEW BANKING DECREE  
**TAGS:** EFIN, BL  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006